MMC Corporation Berhad

Maintain BUY

(2194 | MMC MK) Transportation & Logistics | Industrials

Expecting a pickup in 4QFY19

***Unchanged* Target Price: RM1.30**

KEY INVESTMENT HIGHLIGHTS

- **Normalised 9MFY19 earnings surged by more than 30%.**
- **PBT for the ports and logistics segment increased by +10.1%yoy in 9MFY19 due to throughput growth at PTP and JPB**
- **Higher work progress for KVMRT2 pushed earnings by +11.0%yoy during the same period**
- **Minimal disruption to potential earnings gap supported by acquisition of Alam Flora and disposal of MacArthur**
- **Earnings estimates unchanged as we expect 4QFY19 to pickup**
- **Maintain BUY with an unchanged TP of RM1.30 per share**

Normalised 9MFY19 earnings surged by more than 30%. MMC Corp recorded a 9MFY19 net profit of RM187.1m. Excluding exceptional items such as compensation received for the oil spill at Port of Tanjung Pelepas (PTP) in 2016 and gain on disposals for assets, MMC Corp recorded a normalised net profit of RM141.9m (+48.9%yoy). This made up 62.4% and 61.5% of ours and consensus' full year estimates respectively. Notwithstanding this, the results were within our expectations as performance in 4QFY19 will pick up due to: (i) the seasonal factors for the ports and logistics segment; (ii) the narrowing losses of its other business segments such as Senai Airport Terminal Services Sdn Bhd (SATSSB); and (iii) full-year consolidation of Penang Port's (PPSB) revenue in FY19.

Growth seen at PTP and JPB. Revenue and PBT for the ports and logistics segment increased by +8.3%yoy and +10.1%yoy respectively. Performance of the segment was underpinned by the +3.0%yoy increase in container throughput at Port of Tanjung Pelepas (PTP) and +9.0%yoy at Johor Port Berhad. In fact, PTP contributed more than 90% to the absolute growth in container throughput during the period under review. This helped offset the small decline in container throughput at Penang Port (PPSB) and Northport during the same period. Based on our full year container throughput forecast of 9.41m TEUs for PTP, the 4QFY19 is expected to see a container throughput of more than 2.40m TEUs due to the upcoming festive season. Moreover, 4QFY19 started on a positive note with Malaysia's manufacturing Purchasing Managers' Index climbing to 49.3 in October 2019. Overall, we believe that seaborne trade will remain resilient compared to air trade, in line with DHL's Global Trade Barometer *(refer to Table 1).*

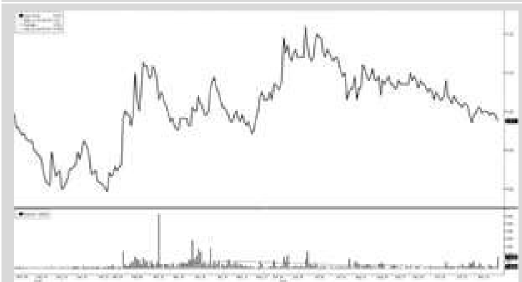
Table 1: DHL Global Trade Barometer

Month	Jul-19	Aug-19	Sep-19
World Trade	48	49	47
Air Trade	48	48	45
Ocean Trade	48	49	48

Source: DHL

RETURN STATISTICS	
Price @ 26th Nov 2019 (RM)	0.98
Expected share price return (%)	+32.65
Expected dividend yield (%)	+4.10
Expected total return (%)	**+36.75**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.3	-6.2
3 months	-8.0	-8.8
12 months	-5.3	1.7

KEY STATISTICS	
FBM KLCI	1,583.87
Syariah compliant	Yes
Issue shares (m)	3045.06
Estimated free float (%)	7.96
Market Capitalisation (RM'm)	2,968.93
52-wk price range	RM0.81 - RM1.25
Beta vs FBM KLCI (x)	1.26
Monthly velocity (%)	9.30
Monthly volatility (%)	25.24
3-mth average daily volume (m)	1.35
3-mth average daily value (RM'm)	1.40
Top Shareholders (%)	
Seaport Terminal Johore Sdn Bhd	51.76
PNB Associated Funds	20.22
Urusharta Jamaah Sdn Bhd	7.68

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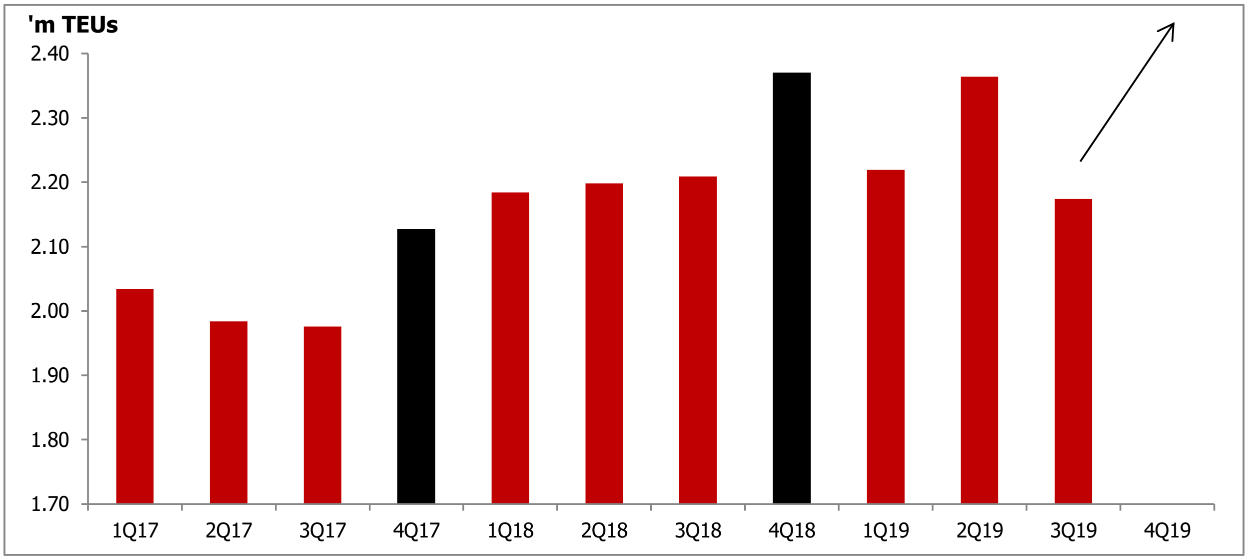
Figure 1: Quarterly Container Throughput of PTP



Source: Johor Port Authority, Company

Earnings visibility for the construction segment. PBT for engineering and construction (E&C) posted a +11.0%yoy increase in 9MFY19. The improvement was largely attributed to the higher work progress from KVMRT2 project. The average completion was at 62.0% in 9MFY19 compared to 34.5% a year ago. The segment's orderbook stood around RM7.0b as at 30 September 2019 which is roughly 4x the construction revenue recorded in FY18. Looking ahead, we gathered that the company is actively proposing a few railway related projects to several state governments. MMC Corp has also put forward alternative solutions for the proposed railway projects touting better cost efficiency and reduction of total cost of ownership by one third of the normal cost. This is in addition to the submitted proposal to revise the MRT3 project at a price tag lower than RM45.0b to the government in December 2018. As such, we believe that this could provide earnings visibility for the segment as the KVMRT2 reaches completion in 2022.

Steady performance in energy and utilities. Malakoff Corporation Berhad (Malakoff) (NON-RATED) recorded a +15.6%yoy increase in PATAMI for 9MFY19 due to: (i) improved contribution from Tanjung Bin Energy coal plan given the shorter plant outage duration, (ii) lower barging and demurrage costs following timely completion of coal unloading jetty; and; (iii) lower net finance costs. Meanwhile, **Gas Malaysia Berhad (BUY; TP:RM3.11)** recorded a profit after tax of RM132.2m (+2.2%yoy) due to higher volume of natural gas sold and higher natural gas tariff. We believe that gas sales volume for FY19 to continue to be sustained with a growth range of 5.0% to 5.5%. Management has also guided that FY20 will see growth coming from the increase in volume of gas sold in line with recently acquired customers primarily from rubber, oleo-chemical, consumer products and glass manufacturing industries.

Other improving business segments. Apart from that, its other business segments such as the SATSSB will likely see narrower losses this year as total passenger growth has reached +25.0%yoy to 3.2m while cargo handled surged by 65.0% in 9MFY19. In addition, some airlines have even increased flight frequencies such as Jin Air which increased the number of flights from four flights per week to two flights a day to meet demand for the winter period in North Asia. With travel demand expected to ramp up in conjunction with Visit Malaysia Year 2020, we do not discount the possibility of SATSSB to be in the black for FY20.

Outlook. Moving forward, we note that Port of Tanjung Pelepas's (PTP) role as a transhipment hub would not be directly susceptible to the trade tension between U.S and China as it mainly caters for intra-Asia trade lanes. Moreover, the impending IMO 2020 sulphur cap in January next year could spur support the transhipment volumes especially at PTP as shipping liners will want to mitigate higher operating expenses from more expensive fuel. For energy and utilities, the expected net gain disposal on Malakoff's 50% stake in MacArthur Wind Farm of RM546m (expected completion in 1QFY20) could be channelled to firm up Alam Flora's operations or Malakoff's existing business segments. Furthermore, the acquisition of Khazanah Nasional Berhad's 40% stake in Malaysian Shoaiba Consortium Sdn Bhd (MSCSB) for USD70m (or RM288m) by Malakoff would also better address the potential earnings gap. Post-acquisition, Malakoff's indirect stake in MSCSB via Malakoff Gulf Limited will be increased to 80% from 40%, enabling Malakoff to recognise higher share of profit from remaining contract periods of approximately 10 years under Shuaibah Water & Electricity Co. Ltd's (SWEC) Power and Water Purchase Agreement(PWPA) and Shuaibah Expansion Project Company Limited (SEPCO's) Water Purchase Agreement indirectly owned by MSCSB.

Earnings estimates. No changes are made to our earnings forecast as we deem it to be within expectations.

Target price. We are maintaining our target price to RM1.30 per share based on sum-of-the-parts valuation.

Maintain BUY. We continue to favour MMC Corp due to: (i) valuation which is supported by the market capitalisation of its listed associates; Malakoff and Gas Malaysia; and (ii) synergies from the full acquisition of Penang Ports, supported by the container terminal business and the cruise terminal operations which will be driven by the growth in tourism in Penang. The cruise terminal operations is a collaboration with Royal Caribbean Cruises Ltd. Other catalysts for MMC Corp include the possible reinstatement of the KVMRT3 project at a revised cost (possibly half the original price tag of RM45b). Moreover, we are confident that MMC Corp will be able to clinch new construction projects especially in railway projects which will act as a buffer for its construction orderbook. Key downside risks to our call include: (i) prolonged global trade tensions; (ii) weak container volumes of MMC Corp's ports; and (iii) downward revision of its listed associates. All factors considered, we reiterate our **BUY** call on MMC Corp with an unchanged **target price** of **RM1.30 per share**.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Revenue (RM' m)	**4,160.1**	**4,983.8**	**4,955.9**	**4,901.8**	**5,346.8**
EBIT (RM' m)	710.9	741.2	733.8	746.4	845.8
Pretax Profit (RM' m)	451.7	402.9	299.4	321.4	377.2
Net Profit (RM' m)	**208.7**	**157.6**	**227.5**	**244.3**	**286.7**
EPS (sen)	6.9	5.2	7.5	8.0	9.4
EPS growth (%)	(62.0)	(25.0)	44.0	7.0	17
PER (x)	14.3	18.9	13.1	12.2	10.4
Net Dividend (sen)	4.0	3.5	4.0	4.0	4.0
Net Dividend Yield (%)	4.1	3.6	4.1	4.1	4.1

Source: Company, MIDFR

MMC CORPORATION BHD: 3QFY19 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative		
	3Q19	%YoY	%QoQ	9M19	9M18	%YoY
Revenue	1,245.8	32.0	1.3	3,619.2	3,424.6	5.7
COGS	(798.5)	42.5	6.1	(2,256.6)	(2,265.0)	-0.4
Gross profit	447.333	16.6	-6.3	1,362.536	1,159.6	17.5
Operating expenses	(245.3)	18.9	3.8	(723.4)	(714.0)	1.3
EBIT	202.0	13.9	-16.3	639.1	445.6	43.4
Finance expenses	(166.0)	19.1	5.8	(513.3)	(398.7)	28.7
Share of results from JV and Associates	84.3	65.6	25.8	214.8	146.2	46.9
PBT	120.2	35.4	-8.9	340.6	193.1	76.4
Tax expense	(42.4)	16.0	-15.7	(116.2)	(55.9)	>100
PAT	77.9	49.0	-4.6	224.4	137.2	63.6
PATAMI	66.3	70.3	-1.3	187.1	100.4	86.4
Normalised PATAMI	37.5	-23.5	-26.1	141.9	95.3	48.9

Segmental Breakdown	Quarterly Results			Cumulative		
Ports & Logistics	**3Q19**	**%YoY**	**%QoQ**	**9M19**	**9M18**	**%YoY**
Revenue	782.0	-0.9	-2.5	2,364.0	2183.0	8.3
PBT	92.0	-32.8	-22.7	315.0	286.0	10.1
Malakoff (37.6% associate)	**3Q19**	**%YoY**	**%QoQ**	**9M19**	**9M18**	**%YoY**
Revenue	1,820.3	-2.7	0.3	5,642.5	5419.9	4.1
PATAMI	82.5	19.5	57.9	201.7	174.5	15.6
Gas Malaysia (30.9% associate)	**3Q19**	**%YoY**	**%QoQ**	**9M19**	**9M18**	**%YoY**
Revenue	1,755.9	12.8	1.1	5,208.2	4494.7	15.9
PATAMI	42.0	2.4	-14.3	132.2	129.3	2.2
Engineering & Construction	**3Q19**	**%YoY**	**%QoQ**	**9M19**	**9M18**	**%YoY**
Revenue	438.0	>100	-10.4	1,179.0	1175.0	0.3
PBT	73.0	>100	7.4	192.0	173.0	11.0

MMC CORPORATION BERHAD: SOTP VALUATION

Assets	Total Value (RM mil)	% Stake	Value	Value per share	Remarks
Energy & Utilities					
Malakoff	5,000.00	37.6	1,880.00	0.61	Consensus TP of RM1.00
Gas Malaysia	3,993.24	30.9	1,233.91	0.41	MIDF Fair Value of RM3.11
Aliran Ihsan Resources Berhad	487.00	100	487.00	0.16	Takeover price
Ports & Logistics					
PTP	1,120.58	70	784.40	0.26	DCF @ WACC: 11%, Perpetual Growth: 1%
Johor Port	513.99	100	513.99	0.17	DCF @ WACC: 11%, Perpetual Growth: 1%
NCB Holdings Berhad	613.24	99	607.10	0.20	DCF @ WACC: 11%, Perpetual Growth: 1%
Penang Port	96.14	100	96.14	0.03	Acquisition price
Senai airport	580.00	100	580.00	0.19	Acquisition price @ 2009
Engineering & Construction					
Construction services	483.70	100	483.70	0.16	PER @ 7x FY20 PAT
MMC-Gamuda MRT2 (AG)	422.52	50	211.26	0.07	DCF
MMC-Gamuda MRT2 (UG)	468.37	50	234.19	0.08	DCF
Others					
Senai Development Land - Airport City	1,466.40	100	1,466.40	0.48	2,104 acres @ RM16 psf
Tanjung Bin Land	1,063.56	100	1,063.56	0.35	1,526 acres @ RM16 psf
Net Debt (Estimate)			(3020.96)	(0.99)	Company level debt
Total Value (RM mil)	16,308.74		6,620.70	2.17	
No of shares				3,045.10	
Value per Share				**2.17**	
Discount (%)				**40%**	Conglomerate discount
Fair Value per Share (RM)				**1.30**	

Source: MIDFR

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DISCLOSURES AND DISCLAIMER

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.